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CHANGES IN THE 1948 FEDERAL CROP INSURANCE PROGRAM RESULTING FROM RECENT LEGISLATION

The 1948 crop year marks the beginning of a new stage in the development of a crop insurance program designed to protect farmers against unavoidable production hazards.

During the first stage--from 1939 through 1943--the Federal Crop Insurance Corporation offered crop insurance on wheat on a Nation-wide basis for the entire period and on cotton for the last two years. Crop insurance was not offered to farmers in 1944 since the Corporation was not in active operation at that time. From 1945 through 1947--the second stage--crop insurance on wheat, cotton, and flax was offered on a Nation-wide basis, and trial programs on tobacco and corn operated in less than 20 counties each.

The third stage of Federal crop insurance operations begins with the 1948 crop year under amended legislation which, among other things, limits the scope of FCIC operations so that the development of a sound basis of crop insurance may be continued with much less financial risk to the Government than was formerly involved in the insuring of commodities on a national basis. Although the new amendment limits the scope of operations, it provides the opportunity to test different methods and plans of crop insurance protection on a basis extensive enough to be representative of the various producing areas for each insurable commodity.

Because of the experimental nature of the 1948 program, there necessarily will be many administrative changes and refinements made in the individual programs for the various commodities. However, the changes discussed herein are confined principally to those resulting from the amended legislation which became law August 1, 1947. These changes are:

1. COMMODITIES INSURED. Insurance is limited in 1948 to not more than seven crops which shall include wheat, cotton, flax, tobacco, and corn. The other two crops may be added, if sufficient actuarial data are available, at the discretion of the Board of Directors. Beginning in 1949, three additional crops may be added each year, as was permitted in the past under the trial program initiated in 1945. However, the recent legislation removes the provision which limited such programs to a three-year period.

2. SCOPE OF OPERATIONS. Beginning in 1948, the programs which were formerly Nation-wide are limited to 200 counties for wheat, 56 counties for cotton, and 50 counties for flax; the limitation of 20 counties each for the former trial programs is increased to 50 counties for corn and 35 counties for tobacco. Other commodities which may be added to the 1948 and succeeding programs are limited to 20 counties each.

   In 1947 Federal crop insurance was in effect in 1,509 counties for wheat, 699 for cotton, 232 for flax, and 19 each for corn and tobacco. The total number of insurance contracts in force in these

counties was 539,777. It is estimated that in 1948 the total number of contracts in force in the selected counties for the five commodities will be over 200,000. Only in the case of wheat insurance will there be a carry-over in 1948 of contracts written in previous years. Approximately 80,000 three-year wheat contracts written in 1946 and 1947 will continue in force under the terms of the original contract except in those cases where the producers in the spring wheat areas elect to convert to a new 1948 contract.

Although the scope of the Nation-wide programs is reduced considerably in 1948, the new legislation provides that the counties selected must be representative of the several areas where the commodity is normally produced, and also that the income from the crop must constitute a relatively important part of the total agricultural income in the county. Thus, valuable experience of the various producing areas for each crop may still be obtained but at a substantial reduction in potential liability to the Government. In addition, it will afford the Corporation the opportunity to more closely supervise the individual programs and to devote more time to analysis and study than has been possible in the past under larger scale operations.

3. COUNTY QUALIFICATION STANDARDS. Before applications for insurance can be accepted by the Corporation from a county there must be written applications filed covering the smaller of 200 farms or one-third of the farms normally producing the commodity. If there are carry-over contracts from previous years in force at the time applications are accepted, such as the three-year wheat contracts, farms covered by such contracts are also counted toward meeting this requirement. The minimum requirement now applies to each commodity separately where two or more commodities may be insured in a county. Formerly the minimum participation requirement was 50 farms or one-third of the farms normally producing the insurable commodities and applied to all commodities combined.

4. PLANS OF INSURANCE. The amended legislation provides that insurance on all commodities may be offered under any plan or plans provided sufficient actuarial data are available. This will enable the Corporation to try more than one plan of insurance on each commodity in order to find the type best suited to a particular commodity and producing area from the standpoint of both the farmer and the Corporation. In former years the legislation provided that insurance on wheat, cotton, and flax could only be against loss of yield, and that insurance on the corn and tobacco trial programs could be against loss of investment as well as loss of yield.

The plans of insurance offered in 1948 under this broader authority will be based on the two basic plans of crop insurance being developed by the Corporation - yield insurance and dollar insurance. These plans of insurance, together with major changes and variations, are discussed briefly below.

a. Yield Insurance.

Under yield insurance, the coverage and premium rate are stated in terms of commodity units, such as bushels or pounds. This type of insurance protects insured farmers against loss of yield due to essentially all unavoidable production hazards. The coverage is based on the productivity of the area in which the farm is located and the insured is indemnified if the yield produced is less than the coverage. The amount of protection is lower in the early stages of production and increases as additional costs are incurred. The premium rates are generally uniform for most farms within an area and are based upon the risk of producing the crop in the area.

The maximum amount of coverage that can be offered under yield insurance was modified by the recent legislation. It provides that the coverage cannot exceed 75% of the average yield for the farm, with the further restriction that if 75% represents more coverage than the general cost of producing the crop in the area, such percentage shall be reduced to more nearly reflect the cost of production. In past years only the 75% limitation applied to the maximum amount of coverage.

An important administrative change has also been made with respect to yield insurance coverage. This has to do with the method of determining the coverage applicable to a farm for insurance purposes. Under the new method, known as the "area coverage plan," insurance coverages are determined for areas rather than being based on average yields for individual farms as in former years. The areas may range in size from an entire county down to an area as small in size as an individual farm in order that all land in the area may be comparable from the standpoint of productivity. This change in the method of determining coverages was brought about by such factors as the lack of individual farm production data and the huge volume of work necessary to maintain individual farm records.

A very desirable feature of the new legislation, insofar as yield insurance is concerned, is the provision which permits the Corporation to compute the cash equivalent of premiums and indemnities on the basis of the parity or comparable price for the commodity as determined and published by the Secretary of Agriculture. In many cases this will permit the establishment of a commodity price before the insurance is sold, thus making it possible to sell yield insurance expressed in terms of dollars and cents rather than in commodity units. Another advantage of this provision is that the indemnities may be determined on the same price basis as the premiums, which will preclude the necessity of carrying premium reserves in commodity units for yield insurance to protect the Corporation against price fluctuations between the time the premiums come due and losses are paid. Such commodity operations

in past years have involved considerable expense for storage and commissions.

b. Dollar Insurance.

Under dollar insurance the coverage and premium rate are stated in terms of dollars and cents. As is the case with yield insurance, this plan is also an all-risk insurance, protecting the farmer against the same unavoidable crop production hazards. The coverage offered is designed to cover the major part of the cost of producing a crop in the area in which the farm is located. This generally represents a relatively low level of protection with a uniform coverage for all farms in a county or major area of a county. The amount of protection is progressive and increases as more production costs are incurred. If the value of the crop is less than the guaranteed amount, due to unavoidable causes, the insured is indemnified. For some types of contracts the value of the crop produced is based in general on the price received by the insured, while for other types of contracts the value is based on a pre-determined price. The premium rates are generally uniform for most farms within an area and are based on the risk of producing the crop in the area.

c. Multiple-Crop Insurance.

One of the plans of insurance under consideration which represents a substantial departure from the programs offered in the past is the multiple-crop insurance plan. Under this plan a number of commodities would be insured jointly under one contract. Although the Corporation is authorized to insure seven commodities for the 1948 crop year, probably not more than four will be found in any one county.

The coverage under multiple-crop insurance would be based on the previously mentioned dollar insurance. A coverage and premium rate in terms of dollars and cents would be established for each commodity and the amount of insurance for the farm would be the sum of these separate coverages. In determining the amount of loss, if any, the value (based on pre-determined prices) of the production for all insurable commodities would be deducted from the amount of insurance for the farm. The remaining amount would be the indemnity due.

A plan such as this seems to be much better suited than single commodity insurance to areas devoted largely to diversified farming since multiple-crop insurance would offer protection on most, if not all, of the farmer's important crops rather than on a single crop. Another desirable feature is that it may be possible to offer such insurance at a somewhat lower premium rate per acre than is possible under single commodity contracts inasmuch as a loss on one commodity may be offset in part or in whole from excess production from another commodity.

d. Mutual Insurance.

Another possible variation that may be tried in a few counties in 1948 or future years is a mutual plan of crop insurance which would, to a large degree, be administered on a local basis by the insured producers through elected representatives. Under a plan of this kind the cost of insurance to the individual member would be directly affected by the loss experience of his association. As yet the details of such a plan have not been developed sufficiently for discussion purposes.

e. Re-Insurance.

For the first time since the Federal crop insurance program has been in operation, the Corporation is authorized (by the new legislation) to reinsure private insurance companies which insure producers of agricultural commodities under contracts acceptable to the Corporation. Such reinsurance is limited to 20 counties selected by the Board of Directors. This provision would enable private companies to enter the field of all-risk crop insurance without the risk of catastrophic losses. The extent to which this provision will be used will depend largely on the interest shown in it by private insurance companies.

5. BOARD OF DIRECTORS. The management of the Corporation is vested in a Board of Directors which is appointed by and subject to the general supervision of the Secretary of Agriculture. The amended legislation provides for a five-member Board composed of three persons from the Department of Agriculture, including the Manager of the Corporation, and two persons experienced in the insurance business who are not otherwise employed by the Government. This will make for a much closer contact with experienced private insurance representatives than has been the case in the past when the services of such persons were only available in an advisory capacity.

Under past programs, the Board, of which the Manager was not a member, consisted of three persons appointed by the Secretary of Agriculture and all employed in the Department of Agriculture.

6. FIELD ADMINISTRATION. The recent amendment to the Act requires that the field administration of the program be supervised more directly by the Corporation than has been the case in former years. It provides that employees or agencies for administering the program in each county shall be selected and designated by the Corporation.

Prior to 1945 the field administration of the program was carried out by the state and county committees of the Agricultural Adjustment Administration (later called the Field Service Branch) on the basis of an overall arrangement for the country as a whole. Beginning in 1945 the Corporation took full responsibility for the loss adjustment work, establishing the office of State Director to supervise this work

and to carry out certain other functions. The state and county committees of the Field Service Branch continued to carry on the remaining work under an overall arrangement, whether they desired to perform this function or not. While these committees may in most cases continue to carry out this same work in 1948, it will not be by an overall arrangement but by individual arrangements with each county committee. In addition, payments to individual counties for the functions performed will be determined on the basis of their workload and performance.